

# **Options for Distilling the Current Array of Washington State Medical Benefit Packages**

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# Options for Distilling the Current Array of Washington State Medical Benefit Packages

## Introduction

This task summary is presented to the program staff of the Washington State Planning Grant on Access to Health Insurance. It represents the research findings and opinions of the consultant team. As you seek feedback from stakeholders, we are confident that you will find this information provides solid grounding for discussions on the work conducted by the consultant team.

As part of the project, the consulting team explored the potential to distill the range of insurance products available in the marketplace into a finite set that would maintain consumers' choices, reduce complexity and cost to the system and increase consumers' ability to comparison shop for coverage. A market with distilled benefits would likely include a limited number of benefit packages, but those packages might in some cases be richer (have more benefits than required by current law) and in other cases might be streamlined (have reduced benefits).

At present, medical policies cover physician services, inpatient hospital care, prescription drug services, maternity services, mental health counseling, chemical dependency and substance abuse (behavioral health) treatment, rehabilitation services, neurodevelopmental care, spinal manipulation, and a host of other clinical services. Distillation might involve such activities as:

- Categorizing existing packages into similar groupings or families, organizing these families of similar packages along a continuum and developing a package representative of each grouping.
- Defining and using a core package of benefits (e.g., covering physician services, inpatient hospital care, prescription drug services and maternity services) which is common among most or all plans, and categorizing other benefits (e.g. wellness benefits, alternative care services) in a consistent fashion to facilitate member comparison and understanding.
- Defining and using common insurance plan cost sharing levels for specified covered services (e.g., providing full office visit coverage after a \$15 copayment; or, paying 80% of covered charges, leaving the patient responsible for the remaining 20% and any excess charge by the provider of care)
- Refining exclusions or limitations on coverage

Conceptually, access to health insurance or health care might be expanded through benefit distillation by:

- Improving the general understanding of benefits and necessary care, thereby facilitating more appropriate health system utilization and patient cost sharing and lowering overall benefit

expenses. For example, individuals might be less likely to obtain care and incur expenses for services that are explicitly and consistently not covered. (This could also reduce claim appeals and the need for benefit exceptions.)

- Reducing the search costs for consumers and purchasers, moderating one barrier to obtaining coverage.
- Reducing marketing, education, and plan administrative costs of payers and plan sponsors by simplifying plan designs and reducing their number and variety. Reduction of costs could affect overall premiums, thereby reducing to some extent the issue of cost as a barrier to purchasing coverage.
- Increasing the willingness of providers to offer services covered by insurance, perhaps because of reduced overhead requirements or a reduced “administrative hassle factor.”
- Increasing the bargaining power of group purchasers when negotiating contracts with providers and payers, although it is unclear whether this power would translate into administrative fee savings

## Methodology

To explore this issue, the researchers:

- Reviewed plan design data from three proprietary databases focusing on employer-sponsored coverage
- Reviewed mandated benefits for Washington insured plans
- Conducted a survey of major payers in Washington State
- Met with and interviewed representatives of some of the payers
- Investigated the standardization of Medicare Supplement (Medigap) products in the early 1990s
- Explored the experience of other states that had standardized benefits

## Summary of Data Assessment and Conclusion

Based on these activities, we determined that:

- Washington medical benefit plans are primarily managed care plans (PPOs and HMOs), with no in-network deductibles and copayments for network provider care required at the time of service. Out-of-network deductibles generally range between \$200 and \$300 per individual per year, with family deductibles often a multiple of the individual deductible. Out-of-pocket maximums tend to be set for individuals only
- Mandated benefits necessarily affect those plans subject to state insurance law, although certain federal mandates also apply (e.g., with regard to mother’s and newborn coverage, mastectomy benefits, mental health benefit levels). Although self-insured (ERISA) plans are not subject to state mandates, state mandates are often adopted to maintain the

competitiveness of self-insured plans. While mandated benefits can be used to define a basic product, critics see mandates as symptoms of unnecessary regulatory intervention, drivers of health care costs and evidence of political favoritism (toward certain provider or patient groups). Certain providers and consumers support selected mandates

- Payers appear to cover many of the same services, and use common cost sharing levels, benefit maximums and exclusions
- Some payers are sympathetic to the State's concern about expanding health insurance coverage, but are not convinced of the need for benefit distillation in light of the marketing advantages they enjoy because of offering plan design flexibility, market demand for changing and increasing benefits, and existing benefit mandates and rating rules
- The distillation of Medicare Supplement products was successful due to the simplicity of policies that were designed, their accepted purpose (anti-fraud, pro-consumer), the compromises made to accommodate consumers and insurers, and the trusted leadership of the Medigap distillation and standardization effort
- Benefit distillation in other states typically involves other aspects of market reform (e.g., use of purchasing cooperatives, new underwriting rules, rating and pricing restrictions). The success of other states with regard to benefit distillation has varied

Detailed information gathered from our major data sources is discussed in **Appendix A**. We have not explored the idea of benefit distillation to date with health care providers, individuals (consumers), employers (businesses), regulators, or agents (brokers) and do not expect to continue this analysis in light of limitations in available data.

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